

Message Text

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ORIGIN TRSE-00

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FM SECSTATE WASHDC
TO AMEMBASSY LUXEMBOURG

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E.O. 11652: N/A

TAGS:EFIN

SUBJECT: TAX LIABILITY ON U.S. BANK LOANS

1. U.S. HAS NO TAX TREATY IN EFFECT WITH BRAZIL, INDONESIA, SOUTH KOREA OR THAILAND. HOWEVER, SENATE FOREIGN RELATIONS COMMITTEE RECENTLY APPROVED A PROPOSED TREATY WITH SOUTH KOREA WHICH PROVIDES FOR A MAXIMUM WITHHOLDING TAX BY SOUTH KOREA OF 12 PERCENT ON INTEREST PAID TO A U.S. BANK. (THE STATUTORY RATE IS 25 PERCENT.) IN GENERAL, BRAZIL AND THAILAND WITHHOLD 25 PERCENT AND INDONESIA 10 PERCENT OF THE GROSS INTEREST PAID. U.S. BANKS ARE SUBJECT TO CORPORATE TAX, CURRENTLY 48 PERCENT, UNCLASSIFIED

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PAGE 02 STATE 087684

OF THEIR NET INCOME. A FOREIGN TAX CREDIT IS GENERALLY ALLOWED FOR FOREIGN INCOME TAXES ON FOREIGN SOURCE INCOME UP TO THE U.S. TAX LIABILITY. IN THE CASE OF BRAZIL, MANY LOANS HAVE IN THE PAST BEEN MADE SUBJECT TO A BRAZILIAN SUBSIDY PROGRAM WHEREBY 85 PERCENT OF THE LOAN INTEREST IS REBATED TO THE BRAZILIAN BORROWER. IT HAS RECENTLY BEEN DECIDED THAT ONLY A TAX CREDIT OF 3.75 PERCENT WILL BE ALLOWED WITH RESPECT TO ANY SUCH LOANS MADE AFTER MARCH 15, 1978; THE OTHER 21.25 POINTS OF THE 25 PERCENT TAX, WHICH

IS REBATED TO THE BRAZILIAN BORROWER, HAS BEEN FOUND NOT
CREDITABLE. FOR LOANS MADE ON OR BEFORE MARCH 15, 1978
FULL CREDIT WILL BE ALLOWED FOR AN AS YET UNSPECIFIED

TRANSITION PERIOD. VANCE

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NNN

Message Attributes

Automatic Decaptioning: X
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